

Message Text

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ACTION EA-09

INFO OCT-01 EUR-12 ISO-00 AID-05 CIAE-00 COME-00 EB-08
FRB-03 INR-07 NSAE-00 USIA-06 XMB-02 OPIC-03 SP-02
LAB-04 SIL-01 OMB-01 NSC-05 SS-15 STR-04 CEA-01 L-03
H-01 PA-01 PRS-01 AGRE-00 ITC-01 /096 W
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P R 170738Z MAR 77
FM AMEMBASSY TOKYO
TO SECSTATE WASHDC PRIORITY 6210
TREASURY DEPT WASHDC PRIORITY
INFO AMEMBASSY BONN
AMEMBASSY LONDON
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PASS CEA, FEDERAL RESERVE AND COMMERCE

E.O. 11652: N/A
TAGS: EFIN, JA
SUBJECT: FINANCIAL AND ECONOMIC DEVELOPMENTS -- MAR 10-16

1. SUMMARY. THE PAST WEEK SAW THE RELEASE OF AN ARRAY OF
FACTS, PLANS, AND PROJECTIONS CONCERNING THE ECONOMIC SCENE
IN JAPAN. ON THE FACTUAL SIDE, NATIONAL ACCOUNTS STATISTICS
ISSUED OVER THE WEEKEND SHOWED SOMEWHAT BETTER THAN ANTICI-
PATED REAL GROWTH IN JAPAN FOR THE CALENDAR YEAR 1976 (PLUS 6.3
PERCENT); REVISIONS IN INDUSTRIAL PRODUCTION STATISTICS FOR
JAN REVEALED A SOMEWHAT WORSE THAN FORESEEN PERFORMANCE (0.2
PERCENT DECLINE INSTEAD OF ZERO GROWTH IN PRELIMINARY
NUMBERS); FEB TRADE STATISTICS SHOWED DECLINES IN BOTH
EXPORTS AND IMPORTS; AND WHOLESALE PRICE NUMBERS FOR FEB
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SPURTED UPWARD, ALTHOUGH MODERATELY BY PRESENT-DAY
STANDARDS. ON THE PLANS SIDE, THE GOVT, IN
ANNOUNCING ANOTHER STIMULUS PACKAGE, PLACED
ITS MONEY ON AN EARLY RECOVERY; WHILE THE BANK OF JAPAN
FINALLY CUT THE DISCOUNT RATE, ONLY TO BE GREETED BY SUG-
GESTIONS THAT BIGGER CUTS WERE IN ORDER. AMONG THE FORE-
CASTERS, THE JAPAN ECONOMIC RESEARCH CENTER ISSUED A WARNING

THAT THE GOVT'S STIMULUS PLANS MIGHT WELL YIELD RAPID GROWTH IN THE MONTHS IMMEDIATELY AHEAD ONLY TO SPUTTER OUT BECAUSE OF SLACK IN PRIVATE INVESTMENT; AND THE JAPAN DEVELOPMENT BANK ALSO HAD GLOOMY WORDS TO SAY ABOUT THE OUTLOOK FOR PRIVATE INVESTMENT.

END SUMMARY.

2. NATL ACCOUNTS STATISTICS RELEASED THIS WEEK SHOWED THAT JAPAN'S REAL GNP ROSE 6.3 PERCENT IN CY 76, DESPITE SLOWER GROWTH IN SECOND HALF. MOST IMPORTANT CONTRIBUTING FACTORS WERE ADVANCES IN PRIVATE CONSUMPTION, NET EXPORTS OF GOODS AND SERVICES, AND PRIVATE HOUSING INVESTMENT. ALTHOUGH PRIVATE PLANT AND EQUIPMENT INVESTMENT REMAINED WEAK, THE SAMLL INCREASE FOR THIS SECTOR IN CY 76 REPRESENTED SUBSTANTIAL IMPROVEMENT FROM SHARP DECLINE IN PREVIOUS YEAR. IN FOURTH QUARTER 1976, JAPAN'S REAL GNP GROWTH, SEASONALLY ADJUSTED, PICKED UP SOMEWHAT, TO APPROXIMATE 2.3 PERCENT ANNUAL RATE, FROM THIRD QUARTER'S 1.4 PERCENT RATE (REVISED). DETAILED INFORMATION ON JAPAN'S GNP STATISTICS FOR FOURTH QUARTER AND YEAR 1976 REPORTED TOKYO 3617.

3. ACCORDING TO REVISED MITI ESTIMATES, MINING AND MANUFACTURING PRODUCTION, SEASONALLY ADJUSTED, DECLINED 0.2 PERCENT IN JAN, AS COMPARED WITH THE FLAT PICTURE PROVIDED BY PRELIMINARY STATISTICS. INCREASE IN PRODUCERS' SHIPMENTS OF FINISHED GOODS ALSO REVISED DOWNWARD TO 0.7 PERCENT VS. 1.5 PERCENT GROWTH IN PRELIMINARY FIGURES. THE DOWNWARD REVISIONS IN PRELIMINARY PRODUCTION AND SHIPMENTS FIGURES (REPORTED TOKYO 2736) PRINCIPALLY REFLECT INCLUSION OF DATA FROM LIMITED OFFICIAL USE

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FOOD AND TOBACCO PRODUCTS INDUSTRIES, NOT COVERED IN THE PRELIMINARY SURVEY. SEASONALLY ADJUSTED PRODUCTION OF FOOD AND TOBACCO PRODUCTS DECLINED 2.4 PERCENT IN JAN, AND SHIPMENTS OF THESE GOODS DECLINED 8.3 PERCENT.

INDEX, 1970 EQUALS 100, S.A.; PERCENT CHANGE FROM
PRIOR MONTH IN PAREN

	MIN. MFG. PRODUCTION	PRODUCERS' SHIPMENTS	INVENTORY TO SHIPMENTS RATIO
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1976 OCT	125.7 (0.2)	126.9 (-1.5)	126.4 (2.6)
NOV	128.9 (2.5)	131.7 (3.8)	124.1 (-1.8)
DEC	128.8 (-0.1)	130.6 (-0.8)	128.5 (3.5)
1977 JAN	128.6 (-0.2)	131.5 (0.7)	128.0 (-0.4)

4. PRELIMINARY CUSTOMS BASIS TRADE FIGURES FOR JAPANESE TRADE IN FEB SHOWED DECLINES IN BOTH EXPORTS AND IMPORTS (REPORTED TOKYO 3629). IN VALUE, DECLINE IN IMPORTS EXCEEDED

THAT OF EXPORTS, BUT IN VOLUME TERMS REVERSE WAS TRUE.
 FOLLOWING TABLE SHOWS DEVELOPMENTS
 OF QUANTUM INDICES IN RECENT
 PERIODS.

JAPANESE TRADE
 QUANTUM INDICES
 (PERCENT CHANGE FROM PREVIOUS PERIOD IN PAREN)
 SEASONALLY ADJUSTED

	1976 (QUARTERLY AVERAGE; REV.)	EXPORTS	IMPORTS
I	191.2 (12.2)	131.3 (5.8)	
II	197.5 (3.3)	135.5 (3.2)	
III	196.6 (-0.5)	139.6 (3.0)	
IV	191.0 (-2.8)	137.6 (-1.4)	

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1977

JAN	200.5 (4.4)	141.9 (4.5)
FEB (ESTIMATE)	194.6 (-3.0)	140.7 (-0.8)

5. WHOLESALE PRICE INDEX (JEI 471) ROSE 0.4 PERCENT IN
 FEB, LARGEST INCREASE IN FIVE MONTHS, AS REPORTED TOKYO 3568.
 INCREASE IN INDEX, WHICH IS NOT SEASONALLY ADJUSTED, WAS LARGELY
 ATTRIBUTABLE TO SHARP RISES IN PRICES OF UNPROCESSED FOOD AND
 AGRICULTURAL RAW MATERIALS (AFTER A PERIOD OF UNUSUALLY COLD,
 DRY WEATHER) AND TO PRICE HIKES POSTED IN PETROLEUM AND COAL
 PRODUCTS, NON-FERROUS METALS, AND METAL MANUFACTURES.
 DESPITE FEB INCREASE, YEAR-OVER-YEAR RISE IN WPI IS NOW AT
 ABOUT 4.8 PERCENT, AND GOJ IN GOOD POSITION TO ACHIEVE ITS
 GOAL OF RESTRAINING ANNUAL INCREASE IN WPI TO 5.1 PERCENT
 IN YEAR ENDING THIS MONTH.

6. GOJ IS NOW BETTING HEAVILY ON ADVANCING FISCAL STIMULUS
 TO SPUR THE JAPANESE ECONOMY. FOUR PART ECONOMIC STIMULUS

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PROGRAM ANNOUNCED MARCH 11 (TOKYO 3493) IS FOCUSED ON SPEEDING UP INITIATION OF PUBLIC WORKS CONTRACTS AND HOUSING INVESTMENT AND PROMOTING INVESTMENT IN ELECTRIC POWER INDUSTRY. PUBLIC WORKS PLANS FOR FY 76 ARE TO BE EXPEDITED AND UNUSUALLY HIGH FIGURE OF 70 PERCENT OF ALL PUBLIC WORKS CONTRACTS FOR FY 77 IS TO BE LET IN FIRST HALF OF FY. SIMILARLY, IN ADDITION TO HOUSING LOANS TO FINANCE 30,000 UNITS WHICH WERE RESCHEDULED FROM FY 77 TO FY 76 AS PART OF NOV STIMULUS PACKAGE, GOJ HOPES TO BUNCH APPLICATIONS FOR ANOTHER 90,000 UNITS INTO APR 77 AND THEN TO EXPEDITE FINANCING. AND TO SPEED UP INVESTMENT IN ELECTRIC POWER FACILITIES, GOVT WILL MAKE CREDIT EASIER AND ASSIST IN EXPEDITING PROCEDURES NEEDED TO INITIATE CONSTRUCTION. NONE OF THE FOUR PARTS OF THE PROGRAM (FOURTH IS VAGUE STATEMENT OF INTENT TO PROMOTE LOWER PRIVATE SECTOR LENDING RATES) WOULD DIRECTLY INCREASE THE AMOUNT OF GOJ
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OUTLAYS IN FY 77. INSTEAD, PROGRAM WILL (UNLESS PLANS GO AWRY) RESULT IN UNUSUALLY HEAVY CONCENTRATION OF FY 77 OUTLAYS IN SPRING AND SUMMER OF THIS YEAR. WHILE HARDLY A DARING GAMBLE, NEITHER IS IT RISKLESS (SEE PARA 9 BELOW).

7. ALTHOUGH BUSINESS COMMUNITY WELCOMED BANK OF JAPAN'S LOWERING OF DISCOUNT RATE BY 0.5 PERCENT TO 6.0 PERCENT PER ANNUM, EFFECTIVE MARCH 12 (TOKYO 3494), KEY BUSINESS SPOKESMEN COUPLED THEIR WORDS OF APPRECIATION WITH COMPLAINTS THAT CUT NOT ONLY TOO SLOW BUT TOO LITTLE. AND SHORTLY AFTER BOJ ANNOUNCED ITS ACTION,

PM FUKUDA AT PRESS CONFERENCE IMPLIED ANOTHER DISCOUNT RATE CUT MIGHT BE IN THE OFFING. AT SAME TIME, PM STAYED AS FAR AWAY AS HE COULD FROM COMMITMENT TO SUBSTANTIAL SAVING AND DEPOSIT RATE CUT, WITH OBVIOUS EYE TOWARD UPPER HOUSE GENERAL ELECTION SCHEDULED FOR MID-YEAR. IT WOULD THUS BE SURPRISING INDEED IF PERIOD AHEAD DID NOT SEE ANOTHER PROLONGED BOUT OF SPECULATION ON ANOTHER DISCOUNT RATE CUT.

8. LEADING CITY, REGIONAL, AND TRUST BANKS HAVE AS EXPECTED ANNOUNCED 0.5 PERCENT CUTS IN THEIR SHORT-TERM LENDING RATES ALTHOUGH BOJ GO V MORINAGA SAID PUBLICLY (AT PRESS CONFERENCE MARCH 11) THAT THIS TIME BANKS NOT BEING ASKED AS IN PAST TO MATCH DISCOUNT RATE CUT.

ON MARCH 14 FINMIN BOH OFFICIALLY PROPOSED TO BOJ POLICY BOARD THAT CERTAIN BANK DEPOSIT AND SAVING RATES BE LOWERED. MOF REPORTEDLY SEEKS REDUCTIONS IN RATES ON ORDINARY DEPOSITS, DEPOSITS AT NOTICE, SPECIAL DEPOSITS, AND DEPOSITS FOR TAX PAYMENTS. RATES ON TIME DEPOSITS MATURING IN THREE MONTHS OR MORE, AS WELL AS POSTAL SAVING RATES, ARE NOT LIKELY TO BE LOWERED AT THIS TIME. NET RESULT OF FOREGOING IS THAT THIS DISCOUNT RATE CUT HAS LESS THAN USUAL IMPACT ON BORROWING AND LENDING RATES OF BANKING SYSTEM.

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9. JAPAN ECONOMIC RESEARCH CENTER (JERC) ON MARCH 14 RELEASED ITS REVISED FORECAST FOR THE JAPANESE ECONOMY IN 1977. REVISED JERC FORECAST PREDICTS REAL GNP GROWTH IN JAPAN OF 4.8 PERCENT IN CY 1977, AS COMPARED WITH 5.6 PERCENT GROWTH RATE PREDICTION IN DEC 76 JERC FORECAST (TOKYO 18443). OF PERHAPS EVEN MORE INTEREST, JERC FORECASTS FISCAL STIMULUS PROGRAMS ANNOUNCED BY GOJ IN PAST FEW MONTHS MAY LEAD TO SURGE IN GROWTH RATE IN SECOND QUARTER THIS YEAR AND INTO THIRD QUARTER, PERHAPS TO 10 PERCENT SAAR LEVEL. BUT JERC ALSO WARNS THAT SUCH RAPID GROWTH UNLIKELY TO BE SUSTAINED BECAUSE PRIVATE INVESTMENT WILL NOT SHOW STRONG RECOVERY, GIVEN CURRENT LARGE UNDERUTILIZATION OF CAPACITY AND SLOW GROWTH OF REAL CONSUMPTION. THUS JERC STRESSES NECESSITY OF ADDITIONAL FISCAL STIMULI IN LATTER PART OF THE YEAR IN ORDER TO ACHIEVE GOJ TARGET OF 6.7 PERCENT REAL GROWTH. JERC HAS ALSO REVISED UPWARD ITS FORECAST OF JAPAN'S CURRENT ACCOUNT SURPLUS FOR CY 1977 TO \$6.3 BIL, FROM \$2.9 BIL IN ITS DEC FORECAST. FOLLOWING TABLE SUMMARIZES JERC FORECAST:

NATIONAL ACCOUNTS
CY 1977

(PERCENT CHANGE FROM PRIOR YEAR)

GNP	4.8	
PRIVATE CONSUMPTION	4.2	
PRIVATE PLANT & EQUIPMENT INVESTMENT	3.5	
PRIVATE HOUSING INVESTMENT	6.0	
PRIVATE INVENTORY INVESTMENT	MIN	23.5
GOVT CURRENT CONSUMPTION	2.0	
GOVT FIXED CAPITAL FORMATION	11.2	

BALANCE OF PAYMENTS CY 1977

(IN \$ BIL)

EXPORTS 76.6

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IMPORTS	63.2
TRADE BALANCE	13.4
CURRENT ACCOUNT BALANCE	6.3

10. JAPAN DEVELOPMENT BANK'S SURVEY OF BUSINESS INVESTMENT OUTLOOK RELEASED THIS WEEK SHOWS VERY SMALL NOMINAL INCREASE IN PLANNED SPENDING FOR PLANT AND EQUIPMENT PROJECTED FOR FY 77, INDICATING DECLINE IN REAL BUSINESS FIXED INVESTMENT. FIRMS' REPOSSES SHOW CURRENTLY PLANNED INVESTMENT BY MANUFACTURING COMPANIES AS DECLINING ALMOST 7 PERCENT BELOW FY 76 LEVELS, WHILE INVESTMENT PLANNED BY NON-MANUFACTURING FIRMS FOR FY 77 SEEN AS 10 PERCENT GREATER THAN ESTIMATED INVESTMENT IN FY 76. LARGE DROP IN INVESTMENT IN STEEL INDUSTRY, ACCOUNTING FOR ONE-THIRD OF ALL MANUFACTURING INVESTMENT, LOOMS LARGE IN EXPLANATION OF PROJECTED FALL-OFF IN MFG. INVESTMENT. (THIS YEAR SAW COMPLETION OF NUMBER OF MAJOR NEW STEEL INDUSTRY PROJECTS.) ANOTHER SUBSTANTIAL INCREASE IN INVESTMENTS BY ELECTRIC POWER INDUSTRY, WHICH ACCOUNTS FOR A RAPIDLY INCREASING SHARE OF ALL BUSINESS FIXED INVESTMENT AND OVER HALF OF ALL FIXED INVESTMENT BY NON-MANUFACTURING SECTOR, IS KEY TO CONTINUED EXPANSION OF NON-MANUFACTURING INVESTMENT IN FY 77. FOLLOWING TABLE SHOWS JDB SURVEY ESTIMATES AND PROJECTIONS OF PERCENT INVESTMENT INCREASES FOR FY 76 AND FY 77 BY MAJOR SECTOR:

	APR 76-MAR 77	APR 77-MAR 78
ALL INDUSTRIES	12.2	2.1
MANUFACTURING	1.9	MIN 6.9
(STEEL)	20.5	MIN 29.9
(OTHER MFG.)	MIN 6.1	5.7
NON-MANUFACTURING	24.0	10.7
(ELECTRIC POWER)	43.8	19.5
(OTHER NON-MFG.)	6.2	0.0

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